Union General Hospital, Inc.

Independent Auditor's Reports and Financial Statements

June 30, 2018 and 2017

BKD LLP
CPAs & Advisors

Union General Hospital, Inc.

June 30, 2018 and 2017

Contents

BKD LLP
CPAs & Advisors

7901 Woodway Drive, Suite 100 // Waco, TX 76712-3897
254.776.8244 // fax 254.776.8277 // bkd.com

Independent Auditor's Report

Board of Directors
Union General Hospital, Inc.
Farmerville, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of Union General Hospital, Inc. (the Hospital), which comprise the balance sheets as of June 30, 2018 and 2017, and the related statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of June 30, 2018 and 2017, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2018, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

BKD, LLP

Waco, Texas
November 5, 2018

Union General Hospital, Inc.
Balance Sheets
June 30, 2018 and 2017

Assets

	2018	2017
Current Assets		
Cash and cash equivalents	$ 7,256,900	$ 5,635,862
Short term certificates of deposit	350,750	100,000
Patient accounts receivable, net of allowance;		
2018 – $1,273,000, 2017 – $1,006,000	1,467,564	920,223
Supplies	206,323	197,290
Prepaid expenses and other	265,485	257,826
Total current assets	9,547,022	7,111,201
Assets Limited As To Use - Internally Designated	20,571	26,093
Property and Equipment, At Cost		
Land and land improvements	335,637	370,760
Buildings and leasehold improvements	7,798,735	7,789,773
Equipment and software	7,665,488	7,547,797
Construction in progress	52,915	-
	15,852,775	15,708,330
Less accumulated depreciation and amortization	11,052,136	10,501,603
	4,800,639	5,206,727
Other Assets	150,041	150,041
Total assets	$ 14,518,273	$ 12,494,062

See Notes to Financial Statements

Liabilities and Net Assets

	2018	2017
Current Liabilities		
Current portion of capital lease obligation	$ 19,062	$ 25,535
Accounts payable	335,973	283,966
Accrued expenses	583,928	528,457
Estimated amounts due to third-party payers	92,475	13,934
Estimated self-insurance costs	40,750	40,750
Total current liabilities	1,072,188	892,642
Captial Lease Obligation, net of current portion	-	19,883
Total liabilities	1,072,188	912,525
Net Assets		
Unrestricted	13,283,515	11,449,872
Temporarily restricted	162,570	131,665
Total net assets	13,446,085	11,581,537
Total liabilities and net assets	$ 14,518,273	$ 12,494,062

Union General Hospital, Inc.

Statements of Operations and Changes in Net Assets

Years Ended June 30, 2018 and 2017

	2018	2017
Unrestricted Revenues, Gains and Other Support		
Patient service revenue (net of contractual discounts and allowances)	$ 16,124,990	$ 14,326,864
Provision for uncollectible accounts	(1,249,158)	(1,026,928)
Net patient service revenue less provision for uncollectible accounts	14,875,832	13,299,936
Other revenue	169,138	347,756
Total unrestricted revenues, gains and other support	15,044,970	13,647,692
Expenses and Losses		
Salaries and wages	5,436,532	5,190,150
Employee benefits	786,172	786,557
Purchased services and professional fees	4,248,232	4,124,771
Supplies	1,091,402	1,061,173
Other expenses	1,490,843	1,521,136
Depreciation and amortization	629,850	501,175
Interest	736	521
Total expenses and losses	13,683,767	13,185,483
Operating Income	1,361,203	462,209
Other Income		
Contributions received	175,225	310,518
Investment income	32,524	15,571
Total other income	207,749	326,089
Excess of Revenues Over Expenses	1,568,952	788,298
Contributions of or for acquisition of property and equipment	212,096	931,987
Net assets released from restriction related to property and equipment	52,595	2,202,595
Increase in Unrestricted Net Assets	$ 1,833,643	$ 3,922,880

Union General Hospital, Inc.

Statements of Operations and Changes in Net Assets (Continued)

Years Ended June 30, 2018 and 2017

	2018	2017
Unrestricted Net Assets		
Excess of revenues over expenses	$ 1,568,952	$ 788,298
Contributions of or for acquisition of property and equipment	212,096	931,987
Net assets released from restriction related to property and equipment	52,595	2,202,595
Increase in unrestricted net assets	1,833,643	3,922,880
Temporarily Restricted Net Assets		
Contributions received	83,500	-
Net assets released from restriction	(52,595)	(2,202,595)
Increase (decrease) in temporarily restricted net assets	30,905	(2,202,595)
Change in Net Assets	1,864,548	1,720,285
Net Assets, Beginning of Year	11,581,537	9,861,252
Net Assets, End of Year	$ 13,446,085	$ 11,581,537

Union General Hospital, Inc.
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Operating Activities		
Change in net assets	$ 1,864,548	$ 1,720,285
Items not requiring (providing) operating cash flow		
Loss on sale of property and equipment	6,160	-
Depreciation and amortization	629,850	501,175
Restricted contributions received	(83,500)	-
Contributions of or for acquisition of property and equipment	(212,096)	(931,987)
Accrued self-insurance costs	-	(29,402)
Provision for uncollectible accounts	1,249,158	1,026,928
Changes in		
Patient accounts receivable, net	(1,796,499)	(898,486)
Estimated amounts due from and to third-party payers	78,541	543,380
Accounts payable and accrued expenses	77,994	(199,684)
Supplies	(9,033)	1,184
Other current assets	(7,659)	45,079
Net cash provided by operating activities	1,797,464	1,778,472
Investing Activities		
Change in assets limited as to use	5,522	122
Purchase of certificates of deposit	(350,750)	(100,000)
Proceeds from sale of certificates of deposit	100,000	-
Purchase of property and equipment	(200,438)	(1,784,610)
Net cash used in investing activities	(445,666)	(1,884,488)
Financing Activities		
Proceeds from contributions for acquisition of property and equipment	295,596	1,055,035
Principal payments on capital lease obligation	(26,356)	(28,553)
Net cash provided by financing activities	269,240	1,026,482
Increase in Cash and Cash Equivalents	1,621,038	920,466
Cash and Cash Equivalents, Beginning of Year	5,635,862	4,715,396
Cash and Cash Equivalents, End of Year	$ 7,256,900	$ 5,635,862
Supplemental Cash Flows Information		
Interest paid	$ 736	$ 521
Property and equipment in accounts payable	$ 29,484	$ -

Union General Hospital, Inc.
Notes to Financial Statements
June 30, 2018 and 2017

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Union General Hospital, Inc. (the Hospital) is a not-for-profit, critical access hospital (CAH), located in Farmerville, Louisiana. The Hospital provides inpatient, outpatient and emergency care services for the residents of Farmerville, Louisiana, and the surrounding area. Admitting physicians are primarily practitioners in the local area.

On November 22, 1983, the Hospital leased the hospital facilities from East Union Parish Hospital Service District (the District). The hospital facilities were originally constructed by the District, which issued ad valorem tax bonds to finance its construction. The Hospital's financial obligation under the lease is to maintain the leased premises in good repair and replace equipment as needed. The lease was amended and restated effective September 8, 2010, and the term extended through March 31, 2019. The agreement will renew for an additional 10-year period upon mutual agreement of the Hospital and District. Under the current lease agreement, there are no minimum lease payments.

The net book value of the District's facility was recorded on the Hospital's financial statements in the initial year of the agreement and the remaining net book value is reported as temporarily restricted net assets. Annual amortization related to the District's assets is reported as assets released from restrictions in the accompanying statements of operations and changes in net assets.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2018 and 2017, cash equivalents consisted primarily of a repurchase agreement with a bank and money market accounts with brokers.

At June 30, 2018, the Hospital's cash accounts exceeded federally insured limits by approximately $523,000, however, collateral was held for these funds by a pledging financial institution.

Certain cash balances are routinely invested in overnight repurchase agreements that are not covered by FDIC insurance programs. The repurchase agreements are collateralized by securities held by the Hospital's financial institution in the Hospital's name.

Assets Limited As To Use

Assets limited as to use include (1) assets restricted by the District for the construction and renovation of a new emergency room and (2) assets set aside by the board of directors (the Board) for future capital improvements and payment of employee sick leave over which the Board retains control and may at its discretion subsequently use for other purposes. At June 30, 2018 and 2017, respectively, assets limited as to use were comprised of cash and totaled $20,571 and $26,093. Amounts required to meet current liabilities of the Hospital are included in current assets.

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for uncollectible accounts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Hospital's allowance for doubtful accounts was approximately 86% and 87% of self-pay patients receivable at June 30, 2018 and 2017, respectively. In addition, the Hospital's write-offs decreased approximately $312,000 from approximately $1,294,000 for the year ended June 30, 2017, to approximately $982,000 for the year ended June 30, 2018. The decrease in the write-offs is primarily the result of positive changes in the age and payer mix of accounts receivable at June 30, 2018 as compared to June 30, 2017.

Supplies

The Hospital states supply inventories at the lower of cost, determined using the first-in, first-out method, or net realizable value.

Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are amortized over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings and improvements	5 – 20 years
Land improvements	5 – 20 years
Equipment and software	3 – 20 years

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

Long-lived Asset Impairment

The Hospital evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended June 30, 2018 and 2017.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the Hospital has been limited by the District to a specific time period or purpose (see *Note 4*).

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Contributions

Unconditional gifts expected to be collected within one-year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

Professional Liability Claims

The Hospital recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any.

The Hospital participates in the Louisiana Patients' Compensation Fund established by the state of Louisiana to provide medical professional liability coverage to healthcare providers. The fund provides $400,000 in coverage per occurrence above the first $100,000 per occurrence. The first $100,000 is covered by the Louisiana Hospital Association Malpractice and General Liability Trust. There is not a limitation placed on the number of occurrences covered.

Workers' Compensation

The Hospital participates in the Louisiana Hospital Association's Self-Insurance Workmen's Compensation Trust Fund. Should the fund's assets not be adequate to cover claims made against it, the Hospital may be assessed its pro rata share of the resulting deficit. It is not possible to estimate the amount of assessments, if any, under this program. The portion of the fund that is refundable to the Hospital is included in other assets.

Income Taxes

The Hospital has been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

The Hospital files tax returns in the U.S. federal jurisdiction.

Excess of Revenues Over Expenses

The statements of operations include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, the change in fair value of an interest rate swap agreement, permanent transfers to and from affiliates for other than goods and services and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Self-Insurance

The Hospital has elected to self-insure certain costs related to employee health programs. Costs resulting from noninsured losses are charged to income when incurred. The Hospital has purchased insurance that limits its exposure for individual claims and that limits its aggregate exposure to $50,000 per covered person.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). CAHs are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare share fraction, which includes a 20% incentive. This payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred, including depreciation. If meaningful use criteria are not met in future periods, the Hospital is subject to penalties that would reduce future payments for services. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital has recognized the incentive payment revenue received for qualified EHR technology expenditures during 2018 and 2017, which was the period during which management was reasonably assured meaningful use was achieved and the earnings process was complete. Management believes the incentive payments reflect a change in how "allowable costs" are determined in paying CAHs for providing services to Medicare beneficiaries. For the year ended June 30, 2017, the Hospital recognized revenue from the Medicare program of approximately $349,000, which is included in net patient service revenue in the statement of operations and changes in net assets. There was no Medicare revenue recognized in 2018. For the years ended June 30, 2018 and 2017, the Hospital recognized revenue from the Medicaid program of

approximately $9,000 and $85,000, respectively, which is included in other operating revenue in the statement of operations and changes in net assets.

Subsequent Events

Subsequent events have been evaluated through, November 5, 2018, which is the date the financial statements were available to be issued.

Note 2: Net Patient Service Revenue

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for uncollectible accounts related to uninsured patients in the period the services are provided. This provision for uncollectible accounts is presented on the statement of operations as a component of net patient service revenue.

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

Medicare. The Hospital is certified as a CAH by Medicare. As a CAH, the Hospital is reimbursed for substantially all inpatient and outpatient services to Medicare beneficiaries based on reasonable costs. Additionally, as a CAH, the Hospital's licensed beds are limited to 25 and the Hospital's acute average length of stay may not exceed 96 hours. The Hospital is reimbursed for substantially all services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor. The Hospital's Medicare cost reports have been audited through June 30, 2016.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid administrative contractor.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended June 30, 2018 and 2017, respectively, was:

	2018	2017
Medicare	$ 7,298,706	$ 6,680,879
Medicaid	4,921,355	4,544,741
Other third-party payers	2,553,270	2,223,239
Self-pay	1,351,659	878,005
Totals	$ 16,124,990	$ 14,326,864

Additionally, the Hospital participates in the Medicaid Disproportionate Share program and received net payments of $1,205,998 and $1,096,028, during the years ended June 30, 2018 and 2017, respectively, which is included in net patient service revenue. The amounts the Hospital may expect to receive from this program during the upcoming fiscal year have not been determined.

Note 3: Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of net receivables from patients and third-party payers at June 30, 2018 and 2017, is:

	2018	2017
Medicare	47%	42%
Medicaid	22%	26%
Other third-party payers	24%	21%
Patients	7%	11%
Totals	100%	100%

Note 4: Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purpose:

	2018	2017
Property and equipment to be used in provision of health care services	$ 162,570	$ 131,665

During 2018 and 2017, net assets of $52,595 and $2,202,595, respectively, were released to purchase property and equipment.

Note 5: Functional Expenses

The Hospital provides health care services primarily to residents within its geographic area. Expenses related to providing these services are as follows:

	2018	2017
Health care services	$ 11,120,569	$ 10,962,747
General and administrative	2,563,198	2,222,736
	$ 13,683,767	$ 13,185,483

Note 6: Pension Plan

The Hospital has a defined contribution pension plan covering substantially all employees. The Board annually determines the amount, if any, of the Hospital's contributions to the plan. Pension expense was $61,648 and $52,079 for 2018 and 2017, respectively.

Note 7: Related Party Transactions

From time to time, the Hospital conducts business with organizations that are affiliated with Board members. This is often a result of a limited number of vendors in smaller communities. During 2018 and 2017, the Hospital maintained funds at Origin Bank where a Hospital Board member serves on the board of directors and is a senior vice-president. At June 30, 2018 and 2017, approximately $6,559,000 and $4,863,000, respectively, of the Hospital's cash balances was held at Origin Bank.

Note 8: Transactions with the District

In March 2008, the voters of the District approved the authorization of a ten-year, $5.56 million property tax levy on all taxable property located within the District. The tax can be used for constructing, maintaining, improving, equipping and operating the Hospital facilities. The District board of directors determines how the tax proceeds will be spent. At the District's election, the Hospital may receive a portion of the tax proceeds from the District as a contribution. During the years ended June 30, 2018 and 2017, the Hospital received $447,788 and $1,115,391, respectively, from the District, and is included in contributions received in the statements of operations and changes in net assets.

The net book value of the property and equipment being leased from the District (*Note 1*) is $79,070 and $131,668 at June 30, 2018 and 2017, respectively. These assets are being amortized over the life of the lease and will revert back to the District at the end of the lease.

Note 9: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in *Notes 1* and *2*.

Medical Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in *Note 1*.

Physician

The Hospital is served by one physician whose patients comprise approximately 24% of the Hospital's net patient service revenue for the year ended June 30, 2018.

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Management Agreement

In prior years, the Hospital entered into a contract for administrative services with IASIS Glenwood Regional Medical Center, which was terminated in April 2018. Prior to the contract being terminated, the contract required the management company provide personnel to perform duties as the Hospital administrator. For the years ended June 30, 2018 and 2017, the Hospital incurred approximately $147,000 and $194,000, respectively, of expenses under the contract, which are included in purchased services and professional fees in the statements of operations and changes in net assets.

Note 10: Future Change in Accounting Principle

Revenue Recognition

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption and will be effective for the Hospital's fiscal year ending June 30, 2020. The Hospital is in the process of evaluating the impact the amendment will have on the financial statements.

Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for the Hospital's fiscal year ending June 30, 2021. The Hospital is evaluating the impact the standard will have on the financial statements; however, the standard is expected to have a material impact on the financial statements due to the recognition of additional assets and liabilities for operating leases.

Supplementary Information

Union General Hospital, Inc.

Schedule of Compensation, Benefits and Other Payments to Chief Executive Officer

Year Ended June 30, 2018

Name of Hospital Chief Executive Officer: Evalyn Ormond

Purpose	Amount
Salary	$ 219,662
Benefits - insurance	548
Benefits - retirement and other	35,146
Reimbursements	3,456
Conference travel	10,562
Unvouchered expenses*	3,100
	$ 272,474

*An example of an unvouchered expense would be a travel advance.

BKD LLP
CPAs & Advisors

7901 Woodway Drive, Suite 100 // Waco, TX 76712-3897
254.776.8244 // fax 254.776.8277 // bkd.com

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

Board of Directors
Union General Hospital, Inc.
Farmerville, Louisiana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Union General Hospital, Inc. (the Hospital), which comprise the balance sheet as of June 30, 2018, and the related statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 5, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2018-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Hospital's Response to Findings

The Hospital's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Hospital's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Waco, Texas
November 5, 2018

Union General Hospital, Inc.

Schedule of Finding and Response

Year Ended June 30, 2018

Reference Number	Finding
2018-001	Segregation of Duties

Criteria – Personnel functions that have the ability to conceal and perpetrate fraud should be segregated.

Condition – The Hospital has a lack of segregation of duties regarding bank reconciliations, payment processing and payroll processing.

Context – The personnel that reconciles the bank account also makes journal entries and processes payments; the business office manager has the ability to take payments, post adjustments and write-off accounts; the payroll personnel has the ability to create a new employee within the system and generate payroll direct deposits.

Effect – The ability to conceal and perpetrate fraud.

Cause – The Hospital operates a smaller/medium sized facility and has limited personnel.

Recommendation – The Hospital should segregate incompatible duties to improve its internal controls related to cash receipts, cash payments and payroll. Specifically, individuals that can add employees to the payroll system should not also have the ability to generate or have access to payroll payments. Additionally, personnel with access to patient payments should not also have the ability to authorize or approve adjustments to patient accounts.

Views of responsible officials and planned corrective actions –
We understand the importance of the Segregation of Duties as it relates to maintaining internal control. As mentioned, the Hospital does have limited personnel in certain areas that creates a lack of Segregation of Duties, but we believe that we have sufficient checks and balances in place in those areas to adequately minimize any risks.

Union General Hospital, Inc.

Summary Schedule of Prior Audit Finding

Year Ended June 30, 2017

Reference Number	Summary of Finding	Status
2017-001	Segregation of Duties	Unresolved. See finding 2018-001.

BKD LLP
CPAs & Advisors

7901 Woodway Drive, Suite 100 // Waco, TX 76712-3897
254.776.8244 // fax 254.776.8277 // bkd.com

Board of Directors
Union General Hospital, Inc.
Farmerville, Louisiana

As part of our audit of the financial statements of Union General Hospital, Inc. (the Hospital) as of and for the year ended June 30, 2018, we wish to communicate the following to you.

AUDIT SCOPE AND RESULTS

Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America and the Standards Applicable to Financial Audits Contained in *Government Auditing Standards* Issued by the Comptroller General of the United States

An audit performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

The Hospital's significant accounting policies are described in *Note 1* of the audited financial statements.

Alternative Accounting Treatments

No matters are reportable.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant areas of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- Allowances for doubtful accounts and contractual adjustments
- Amounts due to and from third-party payers
- Accruals for malpractice losses
- Self-funded health insurance accrual

Financial Statement Disclosures

The following area involves particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Net patient service revenue

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.

Areas in which adjustments were proposed include:

Proposed Audit Adjustments Recorded

- Temporarily restricted net assets

Proposed Audit Adjustments Not Recorded

- Attached is a summary of uncorrected misstatements we aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole.

Auditor's Judgments About the Quality of the Entity's Accounting Principles

No matters are reportable.

Other Material Communications

Listed below are other material communications between management and us related to the audit:

- Management representation letter *(attached)*
- We orally communicated to management other deficiencies in internal control identified during our audit that are not considered material weaknesses or significant deficiencies.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of the Hospital as of and for the year ended June 30, 2018 in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements of the Hospital's financial statements on a timely basis. A deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We observed the following matters that we consider to be significant deficiencies.

Significant Deficiencies

Segregation of Duties

Management is responsible for establishing and maintaining effective control over financial reporting. A few individuals within the entity have incompatible duties in several financial statement reporting transaction cycles. Duties in these transaction cycles are not adequately segregated to safeguard the Hospital's assets. Following is a summary of various incompatible duties we identified.

Revenue Cycle

The business office director has access to all aspects of the cash-receipting, posting and adjustment process. When employees have the ability to make changes in the master file, post entries and reconcile patient accounts, there is generally a risk of misappropriation. We recommend management evaluate the cash receipt process and consider adding additional oversight procedures to mitigate the risk.

Purchasing Cycle

Certain individuals have incompatible duties in the cash disbursements and accounts payable transaction cycle. The comptroller has the ability to generate a payment, post journal entries, make changes to master files and perform bank reconciliations, though the bank reconciliations and some of the journal entries are reviewed by the chief executive officer (CEO) and the chief financial officer (CFO). The human resources director has the ability to access the accounts payable module as well as secondary ability to perform comptroller duties. Individuals with the ability to generate payments should have separate duties from individuals with recording and monitoring duties. We recommend the Hospital consider adding additional oversight procedures to mitigate and limit the opportunity for misappropriation.

Payroll Cycle

Certain individuals have incompatible duties within the payroll transaction cycle. The human resource director has the ability to enter a new employee as well as process payroll for that employee. In addition, it is possible within the system for the human resources director to approve her own timecard, but all department managers' time is reviewed and approved in the payroll system by the CEO, CFO, or Division Leader prior to the payroll being processed for payment. The comptroller has secondary ability to perform payroll transaction duties, including entering a new employee as well as processing payroll for the employee. Individuals that can add employees to the payroll system should not also have the ability to generate or have access to payroll payments. We

recommend the Hospital consider adding additional oversight procedures to mitigate and limit the opportunity for misappropriation.

Management should evaluate the costs versus the benefit of further segregation of duties or implementing additional monitoring or other compensating controls for the above segregation of duties and implement the changes it deems appropriate.

OTHER MATTERS

Revenue Recognition Standard

The model for revenue recognition changed with Financial Accounting Standards Board's (FASB) release on May 28, 2014, of Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (the ASU). The goal of the final standard is to improve consistency of requirements, comparability of revenue recognition practices and usefulness of disclosures.

The core principle of the new model is that the Hospital would recognize revenue as it transfers services to patients in an amount that reflects the consideration it expects to receive. In order to achieve that core principle, an entity would apply a five-step model as follows:

Step 1: Identify the contract with a patient.
Step 2: Identify the separate performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the separate performance obligations in the contract.
Step 5: Recognize revenue when (or as) performance obligations are satisfied.

The Hospital can apply the new standard using either the full retrospective method—including the optional application of certain practical expedients—or use an alternative transition method. The alternative transition method requires an entity to apply the new guidance only to contracts in process under legacy U.S. generally accepted accounting principles (GAAP) at the date of initial application and recognize the cumulative effect of adoption as an adjustment to the opening balance of retained earnings in the year of initial application. An entity choosing to apply the alternative transition method would not restate comparative years, but it would be required to provide additional disclosures in the initial year of adoption.

The standard will be effective for the Hospital's fiscal year ending June 30, 2020, with early adoption permitted.

Lease Accounting Standard

On February 25, 2016, FASB issued ASU 2016-02, *Leases* (Topic 842), the long-awaited new standard on lease accounting.

Under the new ASU, lessees will recognize lease assets and liabilities on their balance sheet for all leases with terms of more than 12 months. The new lessee accounting model retains two types of leases, and is consistent with the lessee accounting model under existing GAAP. One type of lease (finance leases) will be accounted for in substantially the same manner as capital leases are accounted for today. The other type of lease (operating leases) will be accounted for (both in the income statement and statement of cash flows) in a manner consistent with today's operating leases. Lessor accounting under the new standard is fundamentally consistent with existing GAAP.

Lessees and lessors would be required to provide additional qualitative and quantitative disclosures to help financial statement users assess the amount, timing, and uncertainty of cash flows arising from leases. These disclosures are intended to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an organization's leasing activities.

The standard will be effective for the Hospital's fiscal year ending June 30, 2021, with early adoption permitted.

Not-for-Profit Financial Reporting

ASU 2016-14 changes requirements for financial statements and notes of all not-for-profit (NFP) entities and is effective for the Hospital's fiscal year ending June 30, 2019.

A summary of the changes most likely to impact the Hospital is as follows:

- The standard requires NFPs to report expenses by both nature and function, either on the face of the statement of activities, as a separate statement or within the notes.

- NFPs are required to use the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset, in the absence of explicit donor stipulations. This eliminates the option to release the donor-imposed restriction over the estimated useful life of the acquired asset. Investment income will be shown net of external and direct internal investment expenses. There is no longer a requirement to include a disclosure of those netted expenses.

- A NFP can continue to choose to either use the indirect or direct method of reporting to present operating cash flows. If the direct method is used, there is no longer a requirement to present or disclose cash flows using the indirect (reconciliation) method.

- FASB requires enhanced quantitative and qualitative disclosures to provide additional information useful in assessing liquidity and cash flows.

- Provide disclosures on amounts and purposes of governing board or self-imposed designations and appropriations as of the end of the period.

For many NFPs, adoption of the ASU will result in significant changes to financial reporting and disclosures which likely will require significant hours to implement correctly. Management should examine its current reporting system to identify what changes are necessary to comply with the new standard for both its internal and external reporting requirements.

This communication is intended solely for the information and use of management, the Board of Directors, others within the Hospital and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

November 5, 2018

UNION GENERAL HOSPITAL

caring when it counts.

November 5, 2018

BKD, LLP
Certified Public Accountants
7901 Woodway Drive, Suite 100
Waco, Texas 76712

We, Union General Hospital, Inc. (the Hospital), are providing this letter in connection with your audits of our financial statements as of and for the years ended June 30, 2018 and 2017. We confirm that we are responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, operations and compliance, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following:

1. We have fulfilled our responsibilities, as set out in the terms of our engagement letter dated June 5, 2018, for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.

2. We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

4. We have reviewed and approved a draft of the financial statements and related notes referred to above, which you prepared in connection with your audit of our financial statements. We acknowledge that we are responsible for the fair presentation of the financial statements and related notes.

5. We have provided you with:

   (a) Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters.

   (b) Additional information that you have requested from us for the purpose of the audit.

   (c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

   (d) All minutes of directors' meetings held through the date of this letter.

   (e) All significant contracts and grants.

   (f) All peer review organizations, fiscal intermediary and third-party payer reports and information.

6. All transactions have been recorded in the accounting records and are reflected in the financial statements.

7. We have informed you of all current risks of a material amount that are not adequately prevented or detected by hospital procedures with respect to:

   (a) Misappropriation of assets.

   (b) Misrepresented or misstated assets or liabilities.

8. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

9. We understand the potential penalties for failure to disclose reportable tax transactions to the taxing authorities and have fully disclosed to BKD any and all known reportable tax transactions.

10. We have no knowledge of any known or suspected:

   (a) Fraudulent financial reporting or misappropriation of assets involving management or employees who have significant roles in internal control.

   (b) Fraudulent financial reporting or misappropriation of assets involving others that could have a material effect on the financial statements.

   (c) Communications from regulatory agencies, governmental representatives, employees or others concerning investigations or allegations of

noncompliance with laws and regulations, deficiencies in financial reporting practices or other matters that could have a material adverse effect on the financial statements.

11. We have no knowledge of any allegations of fraud or suspected fraud affecting the Hospital received in communications from employees, patients, regulators, suppliers or others.

12. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America. We understand that the term related party refers to an affiliate; principal owners, management, and members of their immediate families, subsidiaries accounted for by the equity method; and any other party with which the Hospital may deal if the Hospital can significantly influence, or be influenced by, the management or operating policies of the other. The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with, the Hospital.

13. Except as reflected in the financial statements, there are no:

    (a) Plans or intentions that may materially affect carrying values or classifications of assets and liabilities.

    (b) Material transactions omitted or improperly recorded in the financial records.

    (c) Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.

    (d) Events occurring subsequent to the balance sheet date through the date of this letter requiring adjustment or disclosure in the financial statements.

    (e) Agreements to purchase assets previously sold.

    (f) Restrictions on cash balances or compensating balance agreements.

    (g) Guarantees, whether written or oral, under which the Hospital is contingently liable.

14. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.

15. We have no reason to believe the Hospital owes any penalties or payments under the Employer Shared Responsibility Provisions of the Patient Protection and

Affordable Care Act nor have we received any correspondence from the IRS or other agencies indicating such payments may be due.

16. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.

17. We have informed you of all pending or completed investigations by regulatory authorities of which we are aware. There are no known circumstances that could jeopardize the Hospital's participation in the Medicare or other governmental health care programs.

18. Adequate provisions and allowances have been accrued for any material losses from:

    (a) Uncollectible receivables.

    (b) Medicare/Medicaid and other third-party payer contractual, audit or other adjustments.

    (c) Reducing obsolete or excess inventories to estimated net realizable value.

    (d) Purchase commitments in excess of normal requirements or above prevailing market prices.

19. Except as disclosed in the financial statements, the Hospital has:

    (a) Satisfactory title to all recorded assets, and they are not subject to any liens, pledges or other encumbrances.

    (b) Complied with all aspects of contractual agreements, for which noncompliance would materially affect the financial statements.

20. With respect to the Hospital's possible exposure to past or future medical malpractice assertions:

    (a) We have disclosed to you all incidents known to us that could possibly give rise to an assertion of malpractice.

    (b) All known incidents have been reported to the appropriate medical malpractice insurer and are appropriately considered in our malpractice liability accrual.

    (c) There is no known lapse in coverage, including any lapse subsequent to the fiscal year-end, that would result in any known incidents being uninsured.

(d) Management does not expect any claims to exceed malpractice insurance limits.

(e) We believe our accruals for malpractice claims are sufficient for all known and probable potential claims.

21. With respect to any nonattest services you have provided us during the year, including preparation of the Form 990, Return of Organization Exempt from Income Tax, and the preparation of a draft of the financial statements and related notes:

(a) We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services.

(b) We have established and monitored the performance of the nonattest services to ensure that they meet our objectives.

(c) We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.

(d) We have evaluated the adequacy of the services performed and any findings that resulted.

22. We have identified to you any activities conducted having both fund raising and program or management and general components (joint activities) and have allocated the costs of any joint activities in accordance with the provisions of FASB ASC 958-720-45.

23. We are an organization exempt from income tax under Section 501(c) of the Internal Revenue Code and a similar provision of state law and, except as disclosed in the financial statements, there are no activities that would jeopardize our tax-exempt status or subject us to income tax on unrelated business income or excise tax on prohibited transactions and events.

24. We further acknowledge the Hospital's exemption under Section 501(c) is subject to additional operating requirements under Section 501(r). As such, we made publicly available a community health needs assessment performed in accordance with IRS requirements, and the Hospital's Board of Trustees subsequently approved an implementation strategy to address needs identified in the assessment. The Hospital is also in compliance with certain requirements dealing with financial assistance, billing and collection practices and limitations on charges for uninsured patients that meet our financial assistance requirements.

25. We acknowledge that we are responsible for compliance with applicable laws, regulations and provisions of contracts and grant agreements.

26. We have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that have a direct and material effect on the determination of amounts in our financial statements or other financial data significant to the audit objectives.

27. We have identified and disclosed to you any violations or possible violations of laws, regulations and provisions of contracts and grant agreements whose effects should be considered for recognition and/or disclosure in the financial statements or for your reporting on noncompliance.

28. We have taken or will take timely and appropriate steps to remedy any fraud, abuse, illegal acts or violations of provisions of contracts or grant agreements that you or other auditors report.

29. We have a process to track the status of audit findings and recommendations.

30. We have identified to you any previous financial audits, attestation engagements, performance audits or other studies related to the objectives of your audit and the corrective actions taken to address any significant findings and recommendations made in such audits, attestation engagements or other studies.

31. We have provided our views on any findings, conclusions and recommendations, as well as our planned corrective actions with respect thereto, to you for inclusion in the findings and recommendations referred to in your report on internal control over financial reporting and on compliance and other matters based on your audit of the financial statements performed in accordance with *Government Auditing Standards*.

32. The financial statements disclose all significant estimates and material concentrations known to us. Significant estimates are estimates at the balance sheet date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur which would significantly disrupt normal finances within the next year. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

33. The fair values of financial and nonfinancial assets and liabilities, if any, recognized in the financial statements or disclosed in the notes thereto are reasonable estimates based on the methods and assumptions used. The methods and significant assumptions used result in measurements of fair value appropriate for financial statement recognition and disclosure purposes and have been applied consistently from period to period, taking into account any changes in circumstances. The significant assumptions appropriately reflect market participant assumptions.

34. We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations.

35. Billings to third-party payers comply in all material respects with applicable coding guidelines, laws and regulations. Billings reflect only charges for goods and services that were medically necessary; properly approved by regulatory bodies, if required; and properly rendered.

36. With regard to cost reports filed with Medicare, Medicaid or other third parties:

    (a) All required reports have been properly filed.

    (b) Management is responsible for the accuracy and propriety of those reports.

    (c) All costs reflected on such reports are appropriate and allowable under applicable reimbursement rules and regulations and are patient-related and properly allocated to applicable payers.

    (d) The reimbursement methodologies and principles employed are in accordance with applicable rules and regulations.

    (e) All items required to be disclosed, including disputed costs that are being claimed to establish a basis for a subsequent appeal, have been fully disclosed in the cost report.

    (f) Recorded allowances for third-party settlements are necessary and are based on historical experience or new or ambiguous regulations that may be subject to differing interpretations.

37. With regard to supplementary information:

    (a) We acknowledge our responsibility for the presentation of the supplementary information in accordance with the applicable criteria.

    (b) We believe the supplementary information is fairly presented, both in form and content, in accordance with the applicable criteria.

    (c) The methods of measurement and presentation of the supplementary information are unchanged from those used in the prior period.

    (d) We believe the significant assumptions or interpretations underlying the measurement and/or presentation of the supplementary information are reasonable and appropriate.

    (e) If the supplementary information is not presented with the audited financial statements, we acknowledge we will make the audited financial statements readily available to intended users of the supplementary information no later than the date such information and the related auditor's report are issued.

38. With regard to the Medicare and Medicaid Electronic Health Record (EHR) Incentive Program:

(a) All required attestation reports have properly been filed.

(b) Management is responsible for the accuracy and propriety of those reports.

(c) All required core objectives have been met or we are reasonably assured of meeting them.

(d) The required number of menu set objectives have been met or we are reasonably assured of meeting them.

(e) We are not aware of any issues related to meaningful use as defined under the EHR Incentive Program that would make the Hospital not eligible to receive the incentive payments, including payments already received.

(f) We believe the amounts submitted to CMS for the reasonable costs incurred for the purchase of depreciable assets associated with administering EHR certified technology are appropriate and consistent with applicable regulations.

39. All required attestation reports have properly been filed. We have evaluated whether there are conditions or events known or reasonably knowable, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern within one year of the date of this letter without consideration of potential mitigating effects of management's plans not yet fully implemented and concluded substantial doubt does not exist.

40. We acknowledge the Hospital is not a conduit debt obligor whose debt securities are listed, quoted or traded on an exchange or an over-the-counter market. As a result, we acknowledge the Hospital does not meet the definition of a "public entity" under generally accepted accounting principles for certain accounting standards.

41. We have not received public monies greater the threshold amount provided by the Louisiana Legislative Auditor and therefore are not required to complete the statewide agreed-upon procedures.

UNION GENERAL HOSPITAL, INC.

Evalyn Ormond

Evalyn Ormond, Chief Executive Officer

William Adcock, Chief Financial Officer

Union General Hospital

ATTACHMENT

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflects the effects on the financial statements if the uncorrected misstatements identified were corrected.

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Current Assets	9,547,022	81,000	9,628,022	0.85%
Non-Current Assets	4,971,251	0	4,971,251	0.00%
Current Liabilities	(1,072,188)	0	(1,072,188)	0.00%
Non-Current Liabilities	0	0	0	0.00%
Current Ratio	8.90		8.98	0.85%
Total Assets	14,518,273	81,000	14,599,273	0.56%
Total Liabilities	(1,072,188)	0	(1,072,188)	0.00%
Net Assets	(13,446,085)	(81,000)	(13,527,085)	0.60%
Revenues & Income	(15,517,410)	(81,000)	(15,598,410)	0.52%
Costs & Expenses	13,683,767	0	13,683,767	0.00%
Change in Net Assets	(1,833,643)	(81,000)	(1,914,643)	4.42%

Client: Union General Hospital

Period Ending: June 30, 2018

SCHEDULE OF UNCORRECTED MISSTATEMENTS (ADJUSTMENTS PASSED)

Description	Location or Business Unit	Financial Line Item	Factual (F), Judgmental (J), or Projected (P)	Assets Current DR (CR)	Assets Non-Current DR (CR)	Liabilities Current DR (CR)	Liabilities Non-Current DR (CR)	(X) Non Tax	Revenues & Income DR (CR)	Costs & Expenses DR (CR)	Net Assets DR (CR)	Net Effect on Following Year: Change in Net DR (CR)	Net Effect on Following Year: Net Assets DR (CR)
Estimated difference in patient AR estimate	UGH		J	81,000	0	0	0		(81,000)	0	0	0	0
		Patient accounts receivable, net		81,000								N/A - Estimated difference	
		Net patient service revenue							(81,000)				
		Taxable passed adjustments							(81,000)	0	0	0	0
		Times (1 - effective tax rate of 00%)							100%	100%	100%		
		Taxable passed adjustments net of tax impact				0			(81,000)	0	0		
		Nontaxable passed adjustments		81,000	0	0	0		0	0	0		
		Total passed adjustments, net of tax impact (if an		81,000	0	0	0		(81,000)	0	0		
									Impact on Change in Net Asse		**(81,000)**		
									Impact on Net Assets		**(81,000)**		